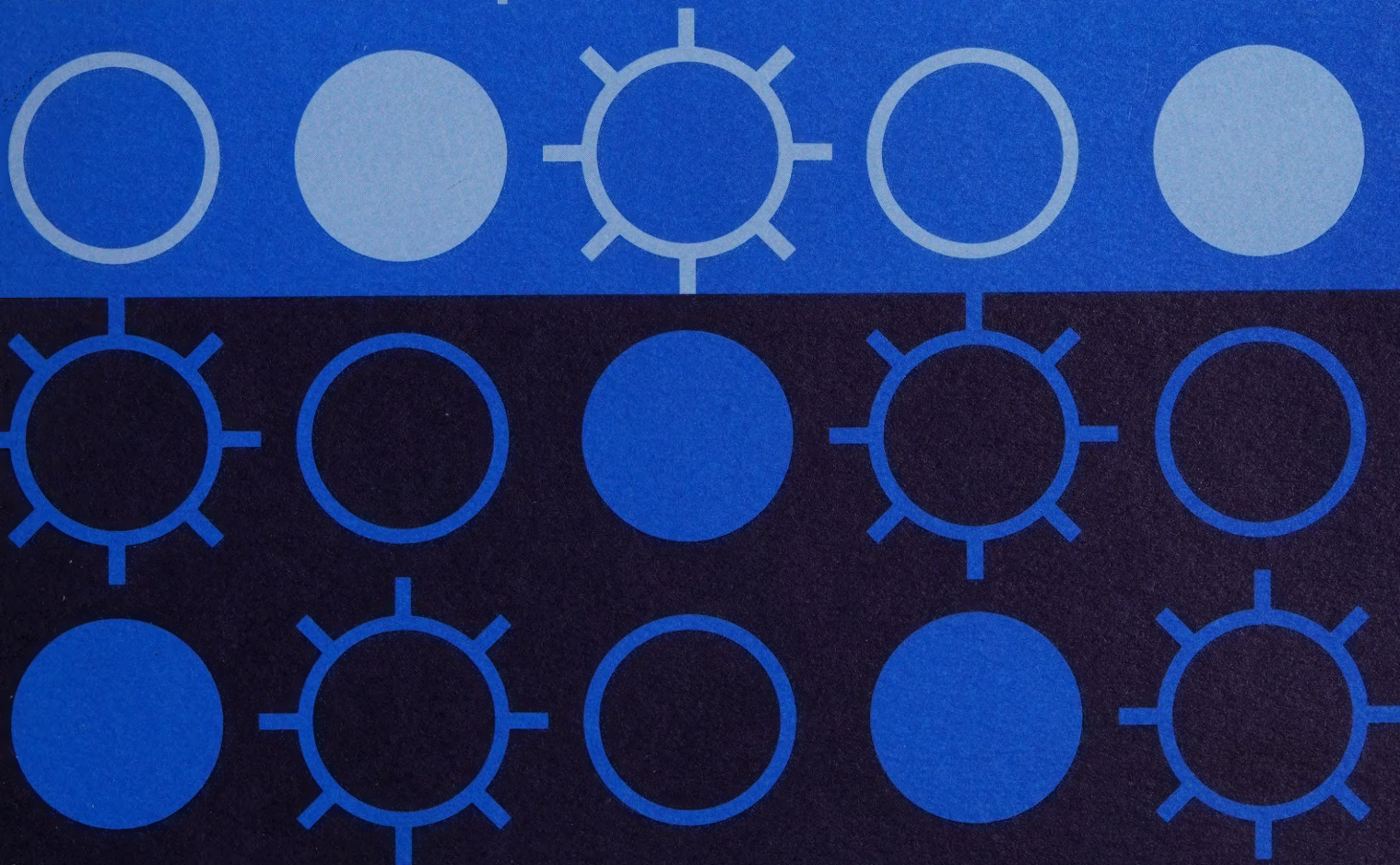


NUMAC OIL & GAS LTD.

AR18

Tenth annual report December 31st. 1972



AR18

Cap rep 1

*Interim
Report
to
Shareholders*

THREE MONTHS ENDED

MARCH 31, 1972

Sub

NUMAC OIL & GAS LTD.

NUMAC OIL & GAS LTD.

**CONSOLIDATED STATEMENT OF INCOME
AND RETAINED EARNINGS**

FOR THE THREE MONTHS ENDED MARCH 31, 1972
(with comparative figures for 1971)

	1972	1971
INCOME		
Income from operations --	\$1,101,556	\$ 690,362
Investment income -----	103,883	105,801
Supervision and sundry --	11,677	13,958
	<u>1,217,116</u>	<u>810,121</u> +
EXPENSES		
Operating expense -----	209,213	206,123
General and administrative	84,190	77,677
Interest expense -----	2,643	12,754
Minority interest -----	—	10,200
	<u>296,046</u>	<u>306,754</u>
CASH FLOW FROM OPERATIONS -----	<u>921,070</u>	<u>503,367</u> +
Provision for depletion and depreciation -----	202,356	185,810
NET INCOME -----	<u>718,714</u>	<u>317,557</u> +
Retained earnings January 1 -----	5,277,010	3,080,526
RETAINED EARNINGS		
March 31 -----	<u>\$5,995,724</u>	<u>\$3,398,083</u>
CASH FLOW FROM OPERATIONS, per share --	22.0¢	12.0¢ +
NET INCOME, per share --	<u>17.2¢</u>	<u>7.6¢</u> +

**CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS**

FOR THE THREE MONTHS ENDED MARCH 31, 1972
(with comparative figures for 1971)

	1972	1971
SOURCE OF FUNDS		
Gross income -----	\$1,217,116	\$ 810,121
Less: Operating, general and administrative, interest and minority interest --	<u>296,046</u>	<u>306,754</u>
Cash flow from operations	921,070	503,367
Minority interest share of income -----	—	10,200
	<u>921,070</u>	<u>513,567</u>
APPLICATION OF FUNDS		
Exploration, development and equipment -----	<u>1,183,637</u>	<u>207,843</u>
Increase (decrease) in working capital -----	(262,567)	305,724
Working capital January 1 --	<u>5,899,236</u>	<u>4,225,526</u>
WORKING CAPITAL		
March 31 -----	<u>\$5,636,669</u>	<u>\$4,531,250</u>

The increase in cash flow and net income in the first quarter of 1972 was mainly attributable to the seasonal nature of the Company's construction division. This division provides road building services to the Province of Alberta and carries out oil-field construction work for numerous major and independent oil companies in Saskatchewan, Alberta and the Northwest Territories. The favorable results reported for the first quarter of 1972 should not be considered to be indicative of the operating results that may be expected for the full 1972 fiscal year.

Edmonton, Alberta
May 11, 1972

W. S. McGregor
W. S. McGregor
President

CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS
FOR THE SIX MONTHS ENDED JUNE 30, 1972

(1971 figures adjusted for comparative purposes)

	1972	1971
SOURCE OF FUNDS		
Gross income	\$2,132,005	\$1,490,649
Less: Operating, general and administrative interest and minority interest ..	485,481	484,024
Cash flow from operations	1,646,524	1,006,625
Sale of equipment	97,371	—
Sale of interest in rights and leases	—	141,339
Minority interest	—	23,330
	<u>1,743,895</u>	<u>1,171,294</u>
APPLICATION OF FUNDS		
Exploration, development and equipment	1,498,610	807,041
Purchase of investments ..	—	12,480
	<u>1,498,610</u>	<u>819,521</u>
Increase in working capital	245,285	351,773
Working capital January 1 ..	<u>5,899,236</u>	<u>4,225,526</u>
WORKING CAPITAL		
June 30	<u>\$6,144,521</u>	<u>\$4,577,299</u>

W. S. McGregor

Edmonton, Alberta
August 2, 1972

W. S. McGREGOR
President

*Interim
Report
to
Shareholders*

SIX MONTHS ENDED
JUNE 30, 1972

NUMAC OIL & GAS LTD.

**CONSOLIDATED STATEMENT OF INCOME
AND RETAINED EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 1972**

(with comparative figures for 1971)

	1972	1971
INCOME		
Gross operating income --	\$1,897,208	\$1,233,398
Investment income -----	206,186	231,950
Supervision and sundry --	28,611	25,301
	<u>2,132,005</u>	<u>1,490,649</u>
EXPENSES		
Operating expense -----	294,349	275,987
General and administrative	187,453	161,196
Interest expense -----	3,679	23,511
Minority interest -----	—	23,330
	<u>485,481</u>	<u>484,024</u>
CASH FLOW		
FROM OPERATIONS -----	1,646,524	1,006,625
Provision for depletion and depreciation -----	417,845	352,382
NET INCOME -----	1,228,679	654,243
Retained earnings		
January 1 -----	5,277,010	3,080,526
RETAINED EARNINGS		
June 30 -----	<u>\$6,505,689</u>	<u>\$3,734,769</u>
CASH FLOW FROM		
OPERATIONS, per share --	39.4¢	24.1¢
NET INCOME, per share ----	29.4¢	15.6¢

SIX MONTH INTERIM REPORT

FINANCIAL

Numac achieved continued financial growth during the six months ended June 30, 1972. Cash flow increased 64% to \$1,646,524 compared to \$1,006,625 for the first six months of 1971. Net income was \$1,228,679 versus \$654,243 for the comparative period in 1971. The Company maintained a healthy working capital of \$6,144,521.

MACKENZIE DELTA

A seismic program was recently carried out on the Numac-Bow Valley permits in the Mackenzie Delta. This program disclosed the presence of a number of large geological structures on these permits.

Imperial Oil Limited has reported the discovery of hydrocarbons in seven of the nine wells it drilled in the Mackenzie Delta this past winter. Including drilling during the previous winter season, all wells drilled to date in the Taglu-Mallik-Ivik area (seven) have had hydrocarbon occurrences which are believed to be gas. These encouraging announcements have led to the merger of the Gas Arctic Systems Group and the Northwest Project Study Group for the purpose of completing studies and making application for a large gas pipeline to the southern markets.

In addition to these reported discoveries, the Gulf-Mobil group announced a gas discovery in the southern Delta region and Imperial Oil has announced the presence of oil in three wells east of the Numac permits.

NORTH SEA AND CELTIC SEA

In March 1972, Numac, in association with other companies, was awarded a production licence covering Block 9/4 in the British sector of the North Sea. This 51,000 acre block in which Numac has an 11¼% participating interest is nine miles west of the Frigg natural gas and condensate field. Numac is operator for the group.

Also in March 1972, Numac participated to the extent of 8 1/6% with another group which was awarded a production licence covering Block 103/27 in the British sector of the Celtic Sea.

OTHER SIGNIFICANT DEVELOPMENTS

During the first six months of 1972, Numac spent \$1,498,610 on capital expenditures. Included in this amount was the purchase of a 20% interest in an 11,040-acre Block "A" permit in the Claresholm area of Alberta. Numac subsequently participated in the drilling of two wells on this acreage, the first a gas discovery and the second an oil discovery. Further drilling will be carried out to prove up additional reserves.

At least four exploratory wells are being considered for different areas in Western Canada, including a 50%-owned drilling reservation in the East Clarke Lake area of British Columbia. Locations will be announced at later dates.

FINANCIAL AND OPERATING HIGHLIGHTS

- Mackenzie Delta Activity
- North Sea Activity
- Western Canadian Exploration
- Petroleum Plaza Project
- Financial Growth

	1972	1971	Percentage Change
* Gross income	\$4,050,644	\$3,473,612	17%
Cash flow from operations	3,008,755	2,213,761	36%
Long-term debt	Nil	60,000	
Net income before extraordinary income	2,258,988	1,501,831	50%
Net income	2,306,057	2,196,484	5%
Capital expenditures	3,078,816	2,160,517	43%
Working capital	6,129,139	5,899,236	4%
Per share:			
Cash flow from operations	.72	.53	
Net income before extraordinary items	.54	.36	
Net income	.55	.53	
Common shares outstanding, December 31	4,181,066	4,181,066	



REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

This is the sixth consecutive year your Company has achieved new highs in cash flow and net income. During the year ended December 31, 1972, net income before extraordinary items increased 50.42% to \$2,258,988 and cash flow of \$3,008,755 was 35.91% greater than the previous year. During the year under review capital expenditures of \$3,078,816 were incurred for the purpose of increasing future income.

Detailed seismic programs were carried out on both Block 9/4 in the British Sector of the North Sea and Block 103/27 in the Celtic Sea. Numac is a participant in both these blocks, totalling approximately 51,000 acres and 64,000 acres respectively, and we expect, because of nearby oil and gas successes and the favorable geological location of our interests, exploration by other companies will be carried out on properties adjacent to our holdings.

In the Mackenzie Delta exploratory activity by Imperial Oil, Shell Canada, Chevron Standard, and the Gulf-Mobil Oil team continues to increase and significant discoveries have been announced by most of these companies in the area of Numac's acreage. As previously reported, Numac's Permits totalling 270,242 acres have been farmed out to Bow Valley Industries Ltd. and associates, who have the obligation to explore and develop the properties reserving to Numac a 20% net carried interest. Presently a 500-mile detailed seismic survey is being conducted on the Permits in order to define drilling targets. This program is estimated to cost \$1,500,000 and should be completed prior to May 15, 1973.



Further announcements of drilling results can be expected from the Delta during 1973 and 1974 since at least twelve drilling rigs are exploring this highly prospective area.

During 1973 explorations for oil and gas will be carried out in Western Canada with multiple well programs planned for each of the Surmont, Red Earth and the Utikuma areas of Alberta. We consider these areas highly prospective for improving the Company's reserves and income in the immediate and longer term periods. A modest mineral exploration program will be carried out in the Northwest Territories, Northern Saskatchewan, the Yukon and British Columbia with associated companies, mainly in the search for uranium, copper, lead and zinc.

The Alberta Government has announced increases in royalties or taxes (at the choice of the lease holder) on oil commencing January 1, 1973. A 10c per barrel increase in the wellhead price of oil in November, 1972 followed by another 20c increase in January, 1973 will more than offset these increased taxes. An upward revision in the wellhead price is also presently under way for natural gas produced in Western Canada. Present indications are that natural gas, which has been selling for an average price of approximately 17c per mcf in Alberta, may soon average 25c to 30c per mcf with some contracts signed for prices exceeding these amounts. It is quite evident that the oil and gas industry in Alberta has entered a period, in terms of markets and demand including increased revenue, which is unprecedented in the history of the Province.

Numac continues in a sound financial condition having approximately \$6 million in working capital plus in excess of \$3 million per year cash flow, all of which is available for exploration since the Company has no long term debt to service. Prospects for 1973 look favorable and further increases in production and cash flow are expected.

The directors again recognize that the growth and success of the Company is directly attributable to the dedicated efforts of the Company personnel whose efforts are appreciated.

On behalf of the Board of Directors

W. S. McGregor

President

March 13, 1973





OIL AND GAS EXPLORATION AND DEVELOPMENT

Western Canada

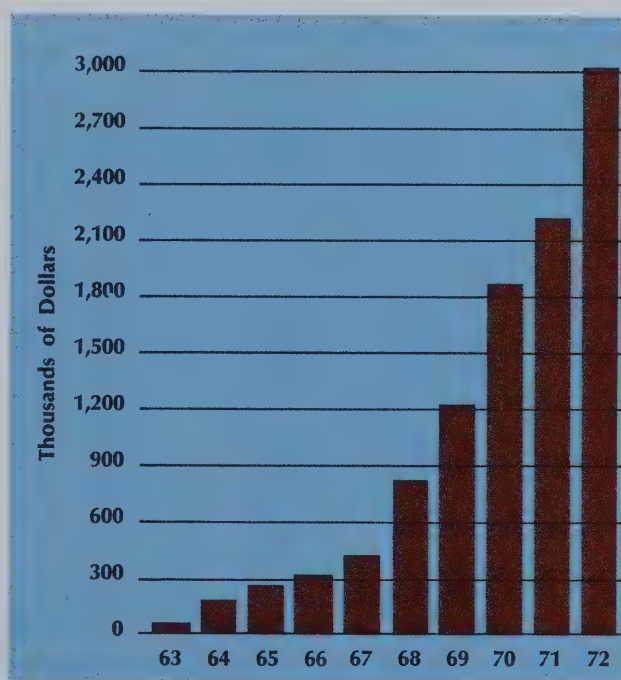
Numac increased its oil and gas well holdings during 1972 to fifty-nine wells in Western Canada most of which are located in Alberta. Forty-seven are oil wells while twelve are capped gas wells awaiting markets at expected considerably higher prices than the current price structure.

During 1972, the Company participated in the drilling of sixteen wells of which six were completed as oil wells, four capped gas wells and six dry holes. Five of the successful oil wells were in the RED EARTH area where Numac is now producing approximately fifty percent of its total production.

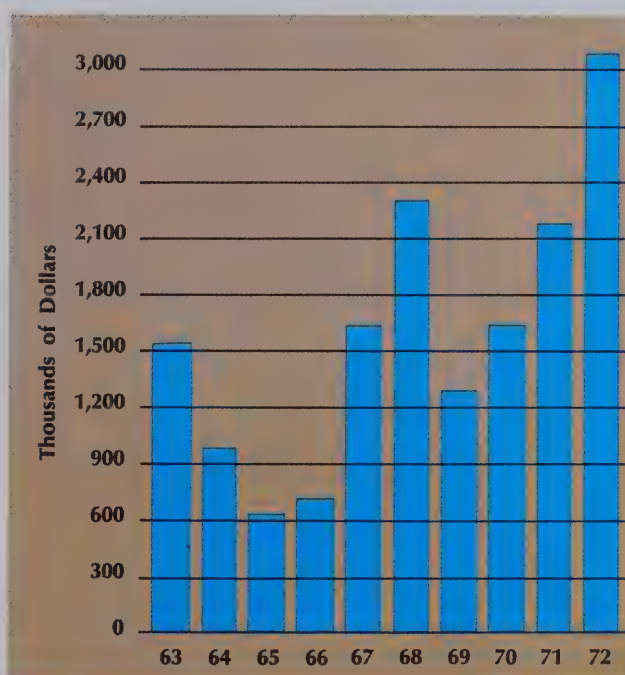
Although the Company was actively participating in a number of drilling programs in 1972, its emphasis was on acquiring strategic acreage in Western Canada. In excess of \$1,200,000 was expended on acquiring Petroleum and Natural Gas leases, permits and reservations during the year.

Recently, Numac drilled a Granite Wash oil discovery on its Drilling Reservation northwest of the main UTIKUMA Granite Wash Oilfield (see map). The well flowed crude oil to the surface on a drill stem test and is now on steady production. Twelve favourably located quarter sections (1,920 acres) will be selected out of the Drilling Reservation for lease purposes and further drilling will be carried out on this acreage during 1973. Numac holds a net one-third ($\frac{1}{3}$) participating interest in this project. Further, a one to three well drilling program is about to commence on Company properties (net interest 20% to 50%) adjoining the main Utikuma field where Numac expects to realize further increases in production.

In 1972, Numac commenced an exploration program in the SURMONT area of Northern Alberta by acquiring a 100% interest in 117,120 acres. It is anticipated this property, located south of the McMurray Tar Sands Development areas, contains sizable natural gas reserves, as well as



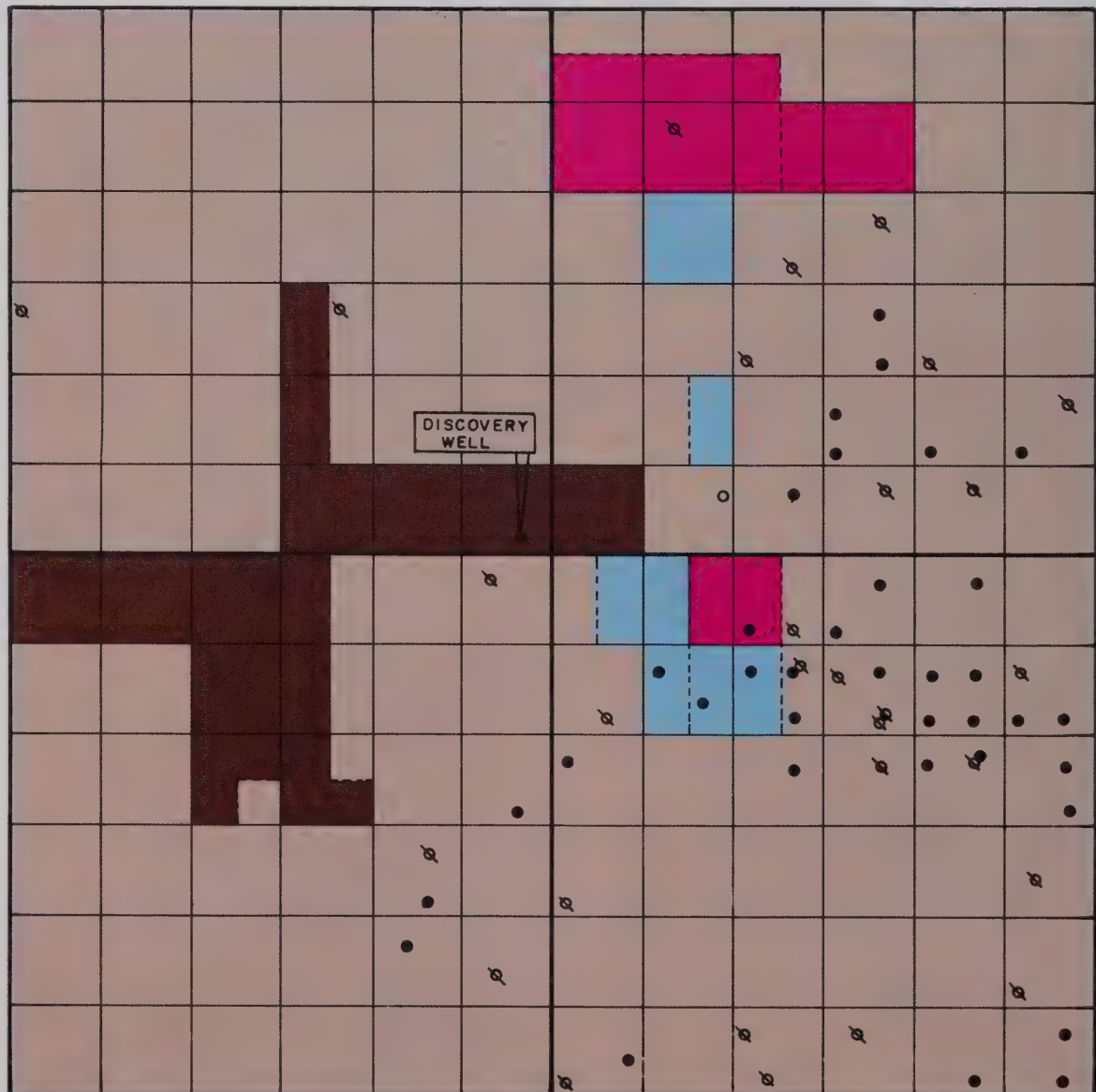
NET CASH FLOW FROM OPERATIONS



CAPITAL EXPENDITURES

R.10

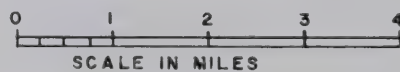
R.9W.5M



TP.82

TP.81

UTIKUMA LAKE AREA



- OIL WELL
- ★ GAS WELL
- ⊗ ABANDONED DRY HOLE
- DRILLING

LEGEND

- NUMAC 15-25% INTEREST
- NUMAC 33/3% INTEREST
- NUMAC 50% INTEREST

HELWYK DRAFTING SERVICE LTD

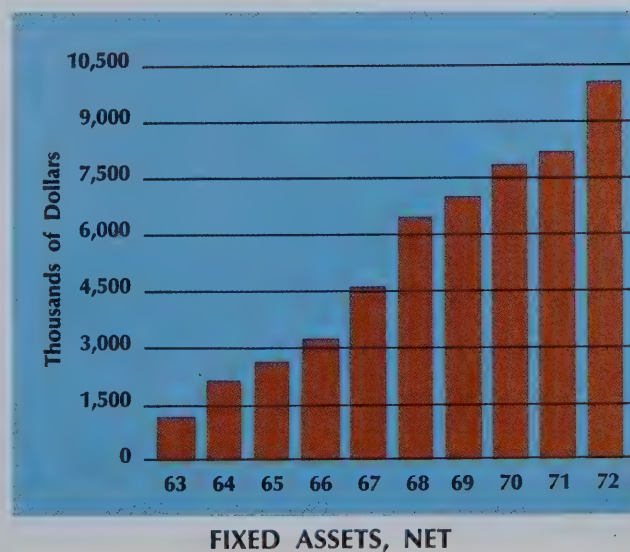
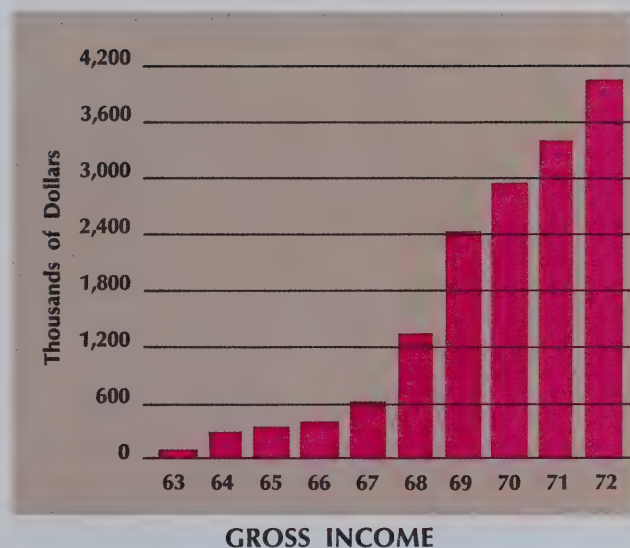
NUMAC OIL & GAS LTD. TENTH ANNUAL REPORT, 1972

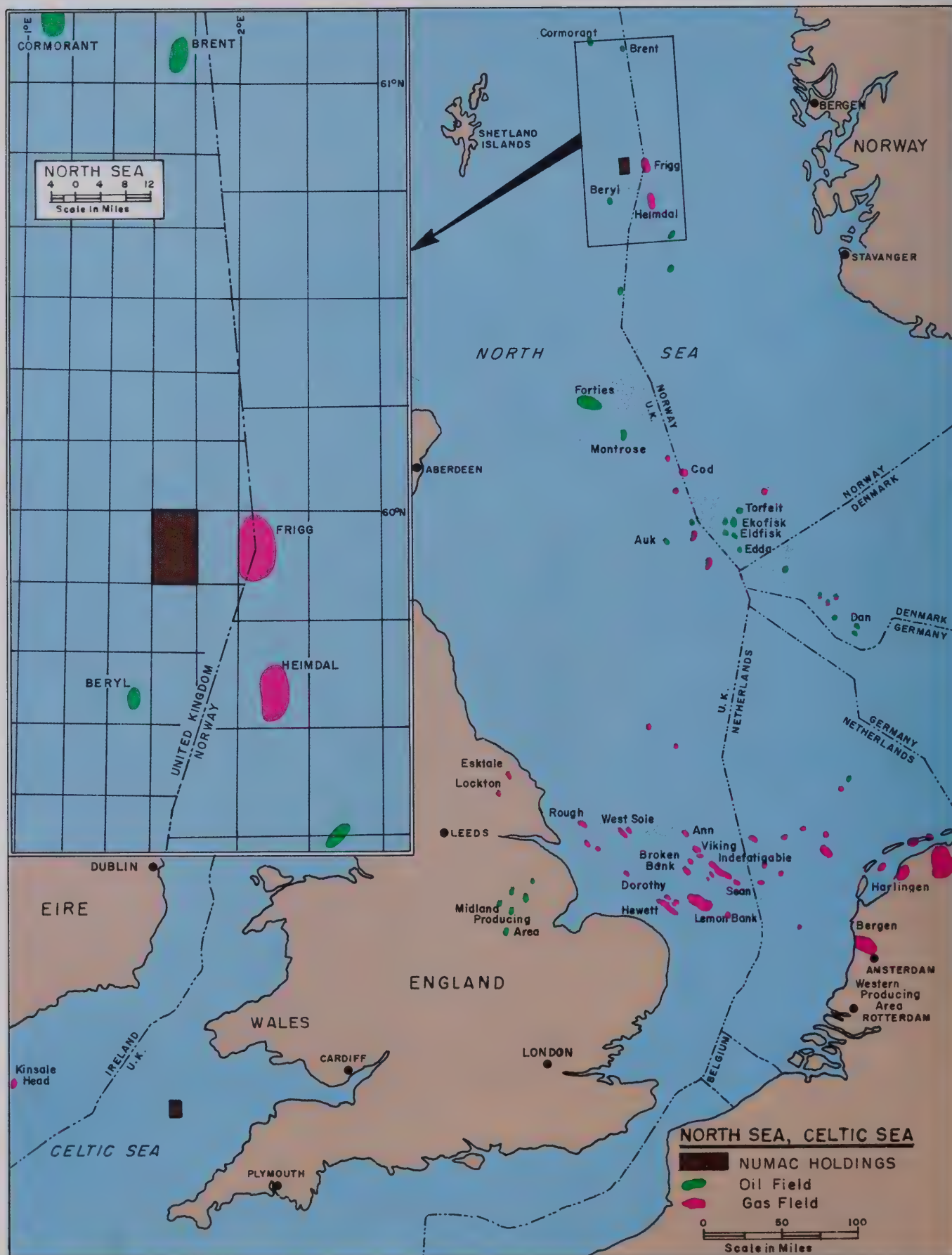
being underlain by bituminous oil sands. Preparatory operations are being completed for a ten to eleven well program which will commence by the end of February, 1973. Establishment of anticipated reserves will be timely in light of the rapidly increasing demand and price of natural gas.

After participating to the extent of 20% in the acquisition of a Block "A" Permit (11,040 acres) in the CLARESHOLM area, one oil well, one gas well and one dry hole were drilled on the property. Numac acquired a 50% interest in an additional 1,440 acres in this area. Further seismic and other information is now being correlated and it is expected further locations will be announced in 1973.

Other land acquisitions in 1972 not previously mentioned were Petroleum and Natural Gas Reservations in the BIRCH HILLS and BUFFALO areas of northeastern Alberta and selective leases adjoining or near Company production in the ZAMA area. Several P&NG Permits and Leases were acquired in gas prone northeastern British Columbia. The prime properties acquired were in EAST CLARKE LAKE, FIREWEED (AITKEN CREEK), RED CREEK, GRAHAM, GLEAM, ALTERES, CONVOY CREEK, SILVERBERRY and LIARD areas, all of which added over 275,000 gross acres to the Company's land holdings. Geological, geophysical and in some cases drilling programs are being planned for these areas, but final decisions will depend on royalty and tax increases presently being considered by the Province of British Columbia.

Towards the end of 1972, Numac commenced a drilling program in its principal producing area, RED EARTH. A further four or five wells are planned for this area in the summer of 1973 to take advantage of the large increase in production allowables. Because of the high reserve nature of the Granite Wash formation (prime producing formation in Red Earth) resulting in high production allowables, the Company anticipates realizing production increases from this area.

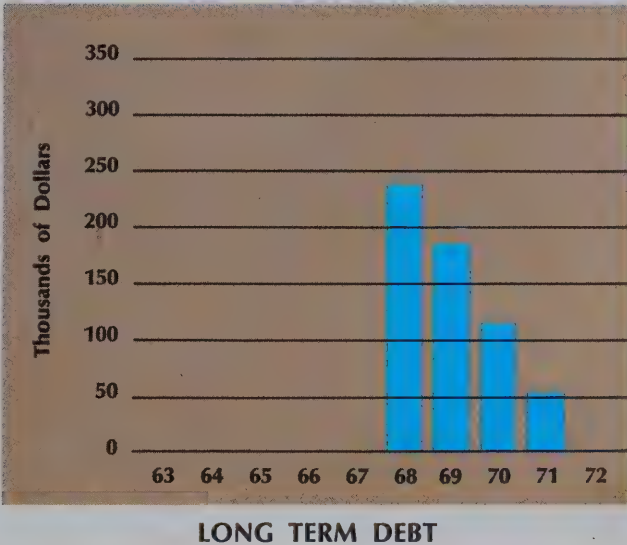
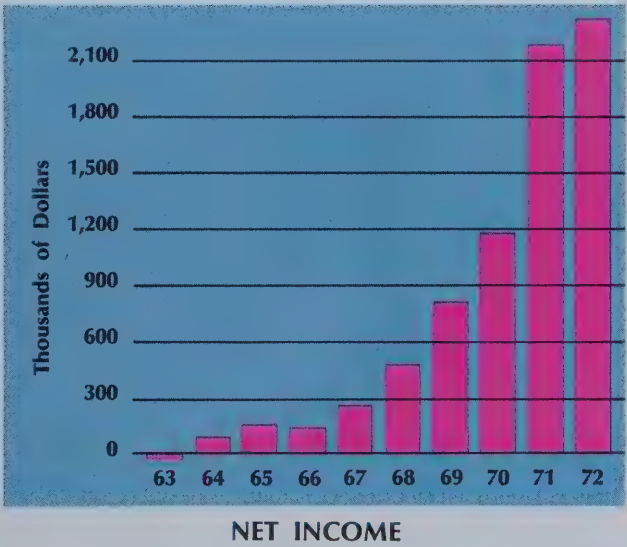




NORTH SEA - CELTIC SEA

1972 constituted Numac's official entry into the international oil and gas exploration scene. As managing operator of the Britcan Consortium, Numac participated in the acquisition of a production license covering Block 9/4 in the NORTH SEA sector of the UNITED KINGDOM. Numac's interest in the 51,323 acre License is 11¼ percent. At the same time, the Company participated as to 8 1/6 percent in Block 103/27 (64,197 acres) in the CELTIC SEA. Block 9/4 is located a short distance west of the prolific Frigg field while Block 103/27 is east of the area in the Irish Sea where Marathon has been reported to have had interesting shows. Detailed seismic work has been carried out on both Blocks. Drilling activity by other companies in the general area of these blocks is providing additional information for purposes of planning future exploration programs on these properties.

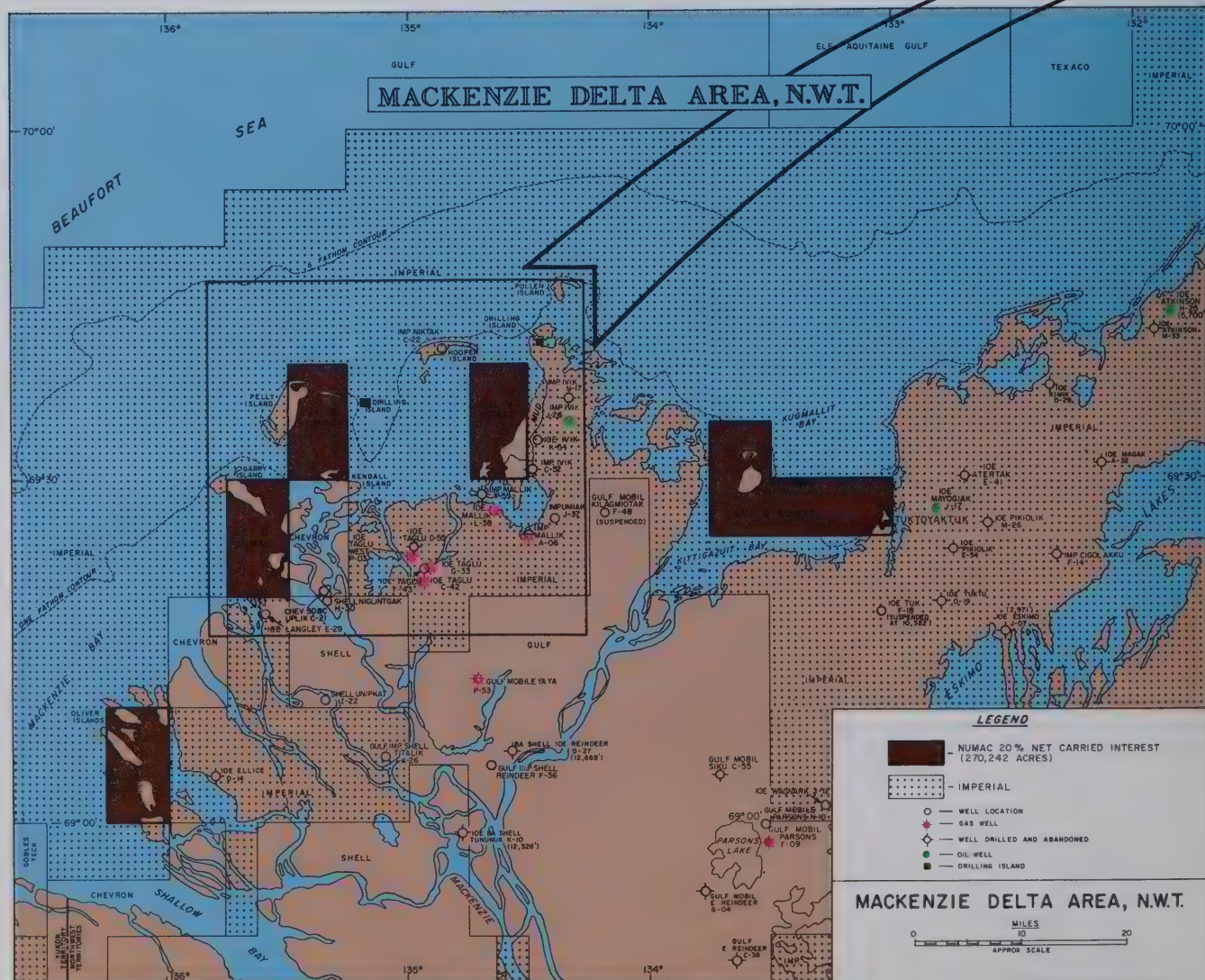
In addition to the above areas, Numac is operator of a consortium that is actively investigating the NORWEGIAN sector of the North Sea. It is also participating in applications for large concessions in three other foreign jurisdictions and is considering further favourable areas.

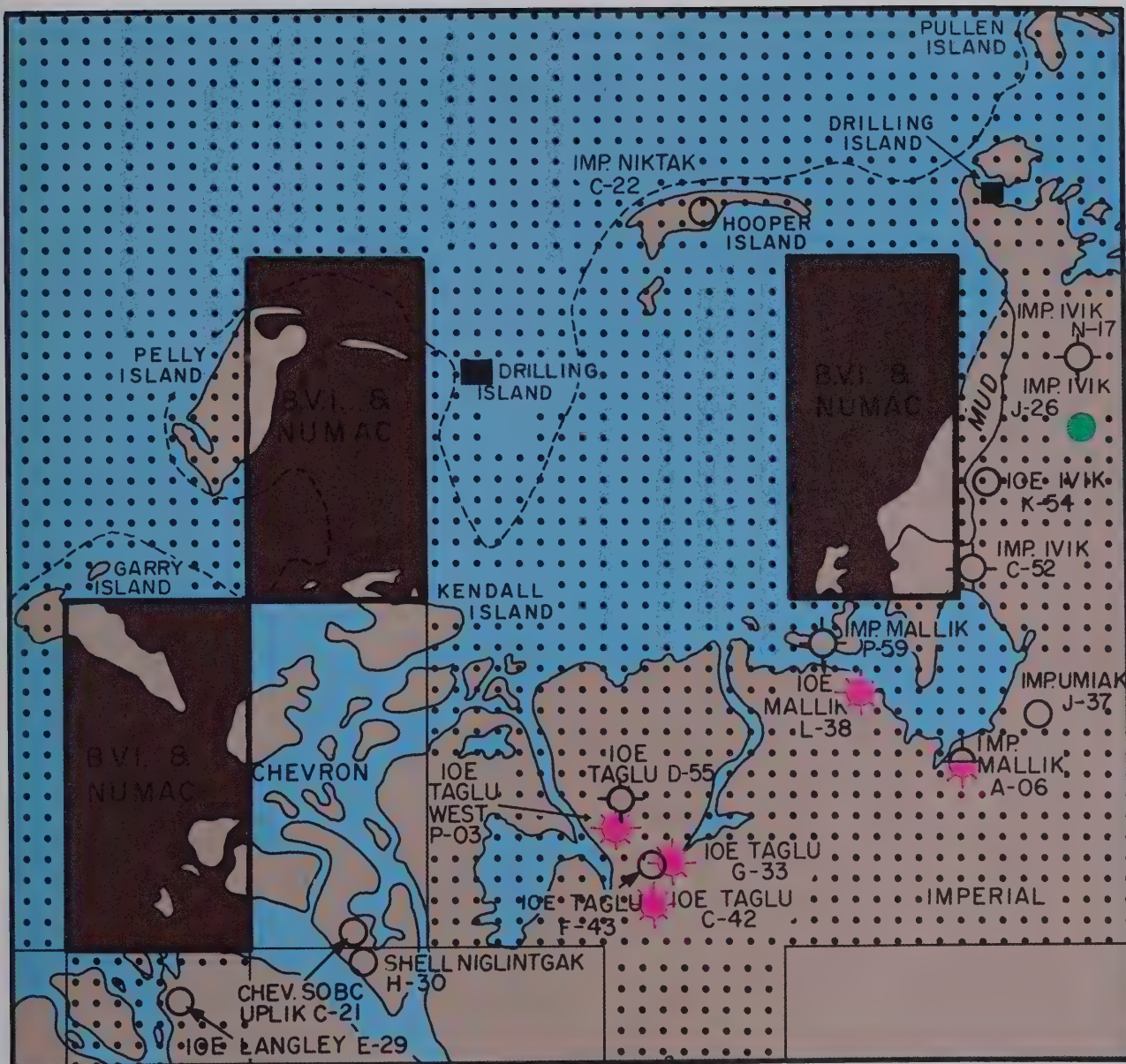


MACKENZIE DELTA

A 500 mile detailed seismic survey is being conducted on Company acreage. This program, costing Bow Valley Industries Ltd. and Associates approximately \$1,500,000, is scheduled for completion prior to May 15, 1973 when spring breakup is anticipated. This detailed information should facilitate selection of locations for drilling this coming year. Numac anticipates that Bow Valley and Associates will either enter into an agreement with a major company to commence drilling our acreage in 1973 or will move on their own drilling rig to commence drilling in the fall of 1973.

As previously mentioned, Numac has a 20% net carried interest in 270,242 permit acres and Bow Valley and Associates assume the risk and responsibility for advancing 100% of all monies necessary to carry on all operations, including exploration, geophysical, drilling and completing the wells. They have the right to recover these costs, excluding any interest charges, out of the proceeds from production, after which Numac would receive 20% of the net proceeds.





Successful wells drilled in the Mackenzie Delta by other companies to date are:

I.O.E. Atkinson H-25
 I.O.E. Mayogiak J-17
 I.O.E. Taglu G-33
 IMP I.O.E. Taglu West P-03
 Gulf Mobil Parsons F-09
 IMP I.O.E. Mallik L-38
 IMP IVIK J-26
 I.O.E. Taglu C-42
 Shell Niglintgak H-30
 Gulf IMP Shell Titalik K-26
 IMP Atertak E-41

Gulf-Mobil Ya Ya P-53
 IMP Mallik A-06

Oil well
 Oil well
 Gas well
 Gas well
 Gas well
 Gas well
 Oil well
 Suspended gas well
 Reported hydrocarbons
 Reported hydrocarbons
 Abandoned indicated oil well
 Gas well
 Abandoned indicated gas well

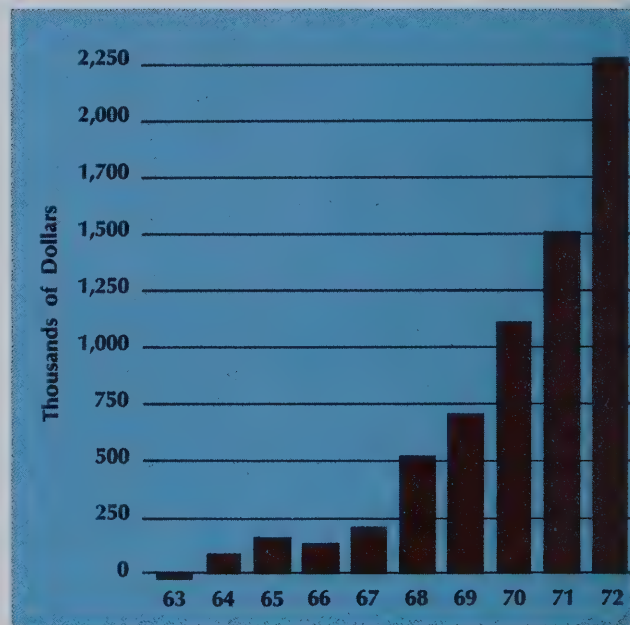
1973 should be the year in which application is made to the Government of Canada for permission to build a gas pipeline down the Mackenzie Valley. Large amounts of both time and money resources have been spent by industry to research the economical and environmental feasibility of the pipeline and viability of the project appears certain.

The Company's 1972 mining exploration program continued to be concentrated in NORTHERN SASKATCHEWAN, BRITISH COLUMBIA and the NORTHWEST TERRITORIES. Most of the programs carried out in 1972 were on a participation basis with mining companies with experienced and qualified geological personnel.

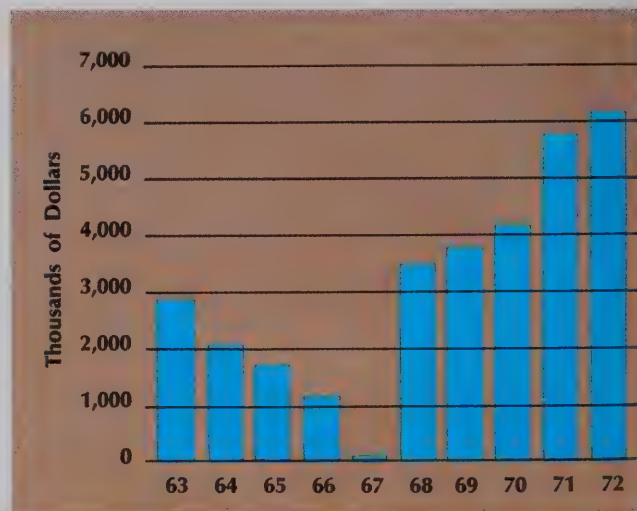
In the CARSWELL area of Northern Saskatchewan, where Mokta (Canada) Ltd. has discovered uranium in what is believed to be commercial quantities on offsetting acreage, an active program is currently being carried out. Numac holds a 25% to 50% interest in 92 claims where exploration has consisted of bulldozer line cutting, scintillometer, radon and geochemical surveys plus major trenching. Several good uranium shows were uncovered and diamond drilling of these occurrences yielded further encouragement. Additional programs on these claims are planned for 1973.

Numac continued its 20% participation in the Copper Belt Syndicate under the direction of Bethlehem Copper Corporation Ltd. The Syndicate has conducted and will continue a base metal exploration program in central British Columbia. The syndicate budget has approximated \$200,000 per year since 1970 and will continue to do so in 1973.

During 1973, the Company will be carrying out further exploration work on its many properties in the Northwest Territories, specifically in the BEAULEAU RIVER GREENSTONE BELT. Other programs are being planned for areas in the YUKON.



NET INCOME BEFORE EXTRAORDINARY INCOME



WORKING CAPITAL



Earnings

Gross income, net income before extraordinary income, and net income set new records for Numac in 1972. Gross income increased to \$4,050,644 from \$3,473,612 in 1971; net income before extraordinary income was \$2,258,988 up from \$1,501,831 in 1971; and the relatively small net income increase to \$2,306,057 from \$2,196,484 in 1971 was due to the large extraordinary income items in 1971. During 1972, the Company earned extraordinary income of \$47,069 represented by the gain on sale of real estate property in the City of Edmonton. Also in 1972, the Company took into income a gain on sale of equipment of \$61,700 as a result of claiming excessive depreciation in prior years. Operating expenses were down in 1972 due to a reduction in repairs, maintenance and other similar charges as well as a reduction due to the sale of Pine Pass Oil & Gas Ltd. during 1971.

Cash Flow

Net cash flow from operations was \$3,008,755 (\$0.72 per share) compared with \$2,213,761 (\$0.53 per share) in 1971. The total cash flow is available for investment in exploration and other similar purposes as the Company has no long term debt to service.

Capital Expenditures

Expenditures on exploration, development and other capital items totalled \$3,078,816 as compared to \$2,160,517 in 1971.

Working Capital

Although capital expenditures increased significantly in 1972, the Company increased its working capital to \$6,129,139 as a result of the substantial cash flow increase.

Taxes

The Company was not subject to income taxes in 1972 and has accumulated a tax credit as at December 31, 1972 of approximately \$2,690,000 to be applied against future taxable income. Although no direct income taxes were payable in 1972, the Company did pay in excess of \$1,300,000 to various levels of Government in Canada by way of royalties, land rentals and lease acquisition costs.

Subsidiary and Affiliated Companies

The oilfield construction operation continued to be active in Alberta, Saskatchewan and the Northwest Territories. The earnings and cash flow appreciably increased from this operation.

In 1972, Numac continued the policy of expanding its foreign exploration operations. The scope of these operations expanded to include a review of the geological and political environment of a number of previously unexplored countries. The Company anticipates increased geological and seismic costs on foreign exploratory ventures in 1973.

Numac maintained its 22% interest in Shield Resources Limited (N.P.L.), a mining exploration company active in the Northwest Territories. Besides Numac's direct interest in Shield, it participates as a partner in numerous mining exploration projects.

The Company has a 60% interest in Nu-Alta Developments Ltd., a real estate development company currently developing the Petroleum Plaza project in the City of Edmonton (see photograph of complex). The first tower will be completed early in 1973 and the second tower in the spring of 1974. Numac accounts for this investment on the equity basis because of the relatively minor investment it has in that company in relation to its total assets and the fact this company has earned no income or incurred no operating expenses since incorporation.

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31, 1972 and 1971

	1972	1971
INCOME		
Gross operating income	\$ 3,566,090	\$ 2,982,219
Investment income	431,142	438,716
Supervision and sundry	53,412	52,677
	<u>4,050,644</u>	<u>3,473,612</u>
EXPENSES		
Operating expense	772,766	970,585
General and administrative expense	254,357	233,974
Interest expense	14,766	34,111
Minority interest	—	21,181
	<u>1,041,889</u>	<u>1,259,851</u>
NET FUNDS FROM OPERATIONS	3,008,755	2,213,761
Provision for depletion, depreciation and amortization ...	811,467	711,930
NET INCOME BEFORE THE UNDERNOTED	2,197,288	1,501,831
Gain on sale of equipment	61,700	—
NET INCOME BEFORE EXTRAORDINARY INCOME	2,258,988	1,501,831
Extraordinary income (Note 7)	47,069	694,653
NET INCOME (Note 3)	<u>\$ 2,306,057</u>	<u>\$ 2,196,484</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31, 1972 and 1971

	1972	1971
RETAINED EARNINGS, beginning of year	\$ 5,277,010	\$ 3,080,526
Add: Net income	2,306,057	2,196,484
RETAINED EARNINGS, end of year	<u>\$ 7,583,067</u>	<u>\$ 5,277,010</u>

EARNINGS PER SHARE

(Based on weighted average of outstanding shares)

	1972	1971
NET INCOME BEFORE EXTRAORDINARY INCOME	54c	36c
Extraordinary income	1	17
NET INCOME	<u>55c</u>	<u>53c</u>

The accompanying notes are an integral part of the financial statements.

NUMAC OIL & GAS LTD. TENTH ANNUAL REPORT, 1972

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Years ended December 31, 1972 and 1971

	1972	1971
SOURCE OF FUNDS		
Income	\$ 4,050,644	\$ 3,473,612
Less: Operating, general and administrative and interest expenses and minority interest	1,041,889	1,259,851
Net funds from operations	3,008,755	2,213,761
Funds provided by sale of investment in subsidiary	—	1,233,097
Sale of property and equipment	611,011	246,037
Sale of investments	12,563	218,871
Minority interest	—	21,181
	<u>3,632,329</u>	<u>3,932,947</u>
APPLICATION OF FUNDS		
Property and equipment	3,078,816	2,160,517
Repayment of long term debt	60,000	60,000
Purchase of investments	263,610	38,720
	<u>3,402,426</u>	<u>2,259,237</u>
INCREASE IN WORKING CAPITAL	229,903	1,673,710
Working capital, beginning of year	5,899,236	4,225,526
WORKING CAPITAL, end of year	<u>\$ 6,129,139</u>	<u>\$ 5,899,236</u>

The accompanying notes are an integral part of the financial statements.

AUDITORS' REPORT

To the Shareholders of
Numac Oil & Gas Ltd.

We have examined the consolidated balance sheet of Numac Oil & Gas Ltd. and subsidiary companies as at December 31, 1972 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EDMONTON, Alberta
February 22, 1973.

WINSPEAR HIGGINS STEVENSON & CO.
Chartered Accountants.

NUMAC OIL & GAS LTD. TENTH ANNUAL REPORT, 1972
CONSOLIDATED BALANCE SHEET DECEMBER 31, 1972 AND 1971

ASSETS

CURRENT ASSETS

Cash
 Marketable securities, at cost
 (market value \$3,821,625;
 1971, \$3,467,175)
 Short term notes, at cost
 Accounts receivable
 Prepaids and deposits

1972	1971
\$ 89,869	\$ 259,851
3,763,014	3,292,943
1,623,768	2,038,005
1,033,797	674,688
57,644	42,251
<u>6,568,092</u>	<u>6,307,738</u>

INVESTMENTS (Note 2)

716,271	535,827
<u>716,271</u>	<u>535,827</u>

FIXED ASSETS, at cost

Lands, leases and well costs
 Production and other equipment

9,488,406	7,592,540
3,706,293	3,146,590
<u>13,194,699</u>	<u>10,739,130</u>

Less: Accumulated depletion,
 depreciation and amortization

3,159,145	2,539,286
<u>10,035,554</u>	<u>8,199,844</u>
<u>\$17,319,917</u>	<u>\$15,043,409</u>

The accompanying notes are an integral part of the financial statements.

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accruals
Current portion of notes payable

NOTES PAYABLE

CONTINGENT (Note 5)

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 4)

Authorized
5,000,000 shares without nominal or par value
Issued
4,181,066 shares

RETAINED EARNINGS

1972

1971

\$ 378,953
60,000

438,953

438,953

\$ 348,502
60,000

408,502

60,000

468,502

9,297,897

7,583,067

16,880,964

\$17,319,917

9,297,897

5,277,010

14,574,907

\$15,043,409

ON BEHALF OF THE BOARD

W. S. McGregor Director

A. H. MacLean Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ACCOUNTING PRINCIPLES

The consolidated financial statements include the accounts of the Company and all subsidiaries except those of a real estate development company accounted for on the equity basis with respect to the Company's ownership of 60% of its outstanding shares. This method of accounting is considered to be appropriate for this subsidiary because of the relatively minor investment in that company in relation to its total assets, the lack of relationship of the business of that company to the principal business of the Company and the fact that the only activity of that company during the year was the development of two office buildings currently under construction which produced no income or expense.

The Companies follow the full-cost method of accounting whereby all costs relative to the exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and overhead directly associated with exploration and development. These costs are depleted on the composite unit-of-production method based on estimated proven developed reserves of oil and gas.

Depreciation of production and other equipment is provided for on the basis of amortizing the cost of assets over their estimated useful lives.

All acquisition and exploration costs of mining properties are treated on a project basis wherein costs are not charged to expense unless the whole project is abandoned. Revenue from farm-out arrangements of mining properties is not taken into income unless the proceeds exceed the total project cost.

NOTE 2 — INVESTMENTS (No quoted market value)

	1972	1971
Real estate development company — equity basis (Note 1)	\$ 417,837	\$ 229,774
Other — at cost less amounts written off	298,434	306,053
	<u>\$ 716,271</u>	<u>\$ 535,827</u>

NOTE 3 — INCOME TAXES

For income tax purposes, the Companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowance (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. As a result of claiming excess drilling, exploration and lease acquisition costs, no income taxes are payable for the year. Expenditures remain to be carried forward and applied against future taxable income in the amount of \$2,690,000 (drill-

ing, exploration and lease acquisition costs \$1,040,000 and undepreciated capital cost \$1,650,000).

The Companies do not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs. While this view conforms with general practice in the oil and gas industry, and is accepted by accounting authorities outside of Canada, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of \$705,000 (\$490,000 in 1971) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$2,170,000 at December 31, 1972.

NOTE 4 — SHARE CAPITAL

As at December 31, 1972, 66,000 shares of Capital stock of the Company were reserved for option to senior officers and key employees at prices ranging from \$5.00 to \$6.48 per share. These options are exercisable cumulatively as to 20% per year of the total number granted commencing one year after date of option, and all expire on or before November 10, 1974.

On January 4, 1973, options were exercised as to 35,200 shares for an aggregate consideration of \$181,920.

NOTE 5 — CONTINGENT

The Company has guaranteed a portion of a bank loan to the real estate development company, referred to in Note 1, for an amount not to exceed \$5,400,000.

NOTE 6 — REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

In accordance with the provisions of the Companies Act (Alberta), it is reported that the remuneration paid to the senior officers of the Companies amounted to \$190,582 (1971 — \$172,520) and directors' fees amounted to \$2,794 (1971 — \$1,508).

NOTE 7 — EXTRAORDINARY INCOME

During the year the Company sold real estate property to the real estate development company referred to in Note 1. In accordance with the equity basis of accounting, 40% of the gain from this transaction, amounting to \$47,069, has been included in the consolidated statement of income as extraordinary income.

BOARD OF DIRECTORS

RALPH A. BARD Jr., Executive
Chicago, Illinois

LAWRENCE L. BELL, Executive
Toronto, Ontario

HADLEY CASE, Chairman, Felmont Oil Corporation
New York, N.Y.

ALEXANDER N. MacIVER, Barrister & Solicitor
Edmonton, Alberta

WILLIAM S. MCGREGOR, President,
Numac Oil & Gas Ltd.
Edmonton, Alberta

JACK W. ROBBINS, Senior Vice-President and
General Counsel, Pitcairn Incorporated
Jenkintown, Penn.

MARSHAL STEARNS, President, T. A. Richardson &
Co. Limited
Toronto, Ontario

LLOYD F. STEVENS, Executive Vice-President,
Allpak Products Limited
London, Ontario

OFFICERS

WILLIAM S. MCGREGOR, President and Managing
Director

DONALD F. BAKER, Vice-President, Engineering

GUNNAR HAUGRUD, Vice-President, Exploration

C. R. S. MONTGOMERY, Secretary and Vice-
President, Lands and Contracts

JOHN T. FERGUSON, Treasurer

ALEXANDER N. MacIVER, Assistant Secretary

Head Office

11055 - 107th Street, Edmonton, Alberta

Registrars and Transfer Agents

The Royal Trust Company, Edmonton, Montreal,
Toronto

The Canadian Bank of Commerce Trust Company,
New York

Auditors

Winspear Higgins Stevenson & Co., Edmonton,
Alberta

Solicitors

Jackson, Arlette and MacIver, Edmonton, Alberta

Listing

Toronto Stock Exchange
American Stock Exchange

Annual Meeting

9:00 a.m., June 14, 1973
Hotel Macdonald, Edmonton

TEN YEAR STATISTICAL SUMMARY

	1972	1971	1970
+ Gross Income, net after royalties	\$ 4,050,644	3,473,612	2,980,420
Operating Expense	\$ 772,766	970,585	827,147
General and Administrative	\$ 254,357	233,974	184,333
+ Net Cash Flow from Operations	\$ 3,008,755	2,213,761	1,869,333
— per share	\$.72	.53	.45
Long-term debt	\$ —	60,000	120,000
Depletion and depreciation	\$ 811,467	711,930	685,022
+ Net Income, before extraordinary items	\$ 2,258,988	1,501,831	1,184,311
— per share	\$.54	.36	.28
x Net Income	\$ 2,306,057	2,196,484	1,184,311
— per share	\$.55	.53	.28
Fixed Assets, net	\$10,035,554	8,199,844	7,960,880
Capital Expenditures	\$ 3,078,816	2,160,517	1,619,712
Shareholders' Equity	\$16,880,964	14,574,907	12,378,423
Working Capital	\$ 6,129,139	5,899,236	4,225,526
Common Shares Outstanding	4,181,066	4,181,066	4,181,066
Land Holdings			
Gross Acres	1,579,474	1,187,768	1,172,877
Net Acres	509,586	281,161	354,876

1969	1968	1967	1966	1965	1964	1963
2,421,679	1,386,325	653,135	485,741	353,488	281,352	104,154
932,427	385,789	93,146	57,254	34,611	38,221	6,908
158,404	112,670	82,876	60,946	46,928	49,837	31,143
1,220,286	805,510	432,954	340,074	288,200	190,476	66,103
.29	.23	.14	.11	.09	.06	.02
180,000	240,000	—	—	—	—	—
495,246	301,213	192,744	196,462	131,068	90,794	70,504
725,040	504,297	240,210	143,612	157,132	99,682	(4,401)
.17	.14	.07	.05	.05	.03	—
803,800	474,781	240,210	143,612	157,132	99,682	(4,401)
.19	.13	.07	.05	.05	.03	—
7,163,968	6,403,755	4,767,132	3,388,668	2,764,274	2,276,558	1,357,473
1,367,452	2,315,234	1,622,144	715,995	651,100	972,072	1,536,114
11,074,311	10,275,499	5,217,706	4,945,225	4,801,613	4,644,481	4,544,799
3,816,730	3,640,098	147,996	1,241,553	1,778,017	2,133,439	2,977,393
4,179,566	4,177,566	3,209,925	3,200,000	3,200,000	3,200,000	3,200,000
1,427,533	2,514,639	1,597,111	1,365,155	921,100	490,944	397,431
422,655	1,160,115	1,121,752	1,052,521	735,470	327,125	151,900

NOTE: The above Statistical Summary includes the operations of Numac Oil & Gas Ltd. from date of incorporation, March 13th, 1963, and its subsidiary companies from date of acquisition.

It also reflects retroactive adjustments due to the adoption of the full-cost method of accounting effective January 1st, 1968.

